COMPLETING THE CCT MISSION: THE CHALLENGE OF CHANGE

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Fifth Annual CCT Conference
Tampa, FL
January, 1997

I. INTRODUCTION

Thank you for the opportunity to provide some insight on the future of clean coal technology and how the CCT mission might be completed in a restructured electricity industry. A few years back, I spoke at this conference when it was held in Cleveland. At that time I was a regulator and before that a legislator. I hope to draw upon those prior experiences, add a perspective from my current role as an energy industry association executive, and suggest some ways in which we can all work together to meet the challenge of change consistent with the theme of this meeting.

First, I hope you will indulge me the opportunity to tell you a little about the Illinois Energy Association. Our organization is relatively new, having been formed in January 1994. We have eight member companies who are investor-owned energy utilities doing business in the State of Illinois: Central Illinois Light Company, Central Illinois Public Service Company, Commonwealth Edison Company, Illinois Power Company, Interstate Power Company, MidAmerican Energy Company, Mt. Carmel Public Utility Company and Union Electric Company. Our members run the gamut from a heavy concentration of nuclear generating capacity to exclusive use of coal for generation. Each year we use millions of tons of coal, both high-sulfur Illinois Basin and low-sulfur. The member companies of the Illinois Energy Association are not only interested in the future of clean coal technology, we have a huge stake in its viability.

My personal involvement in clean coal technology spans my changes in career. As an Indiana State Senator representing a coal belt district, I was deeply involved in pro-coal legislation and was an author of Indiana's 1989 statute promoting the use of clean coal technology. When I left the legislature and became Chairman of the Indiana Utility Regulatory Commission in May of 1989, one of my first tasks was to interpret and implement that very law which I had just authored. That case resulted in construction of the Pure Air on the Lake project at Northern Indiana Public Service Company's Bailly Generating Station. Later I was involved in approval of construction for PSI Energy's Wabash River Coal Gassification Repowering Project. Since leaving the Indiana Commission in 1993 for my present position, I have been involved in helping my member companies monitor clean coal technology

developments. I was born and raised in Sullivan County in Indiana's coal belt, and much of my public and private career has been devoted to promoting coal and clean coal technology.

Permit me also to say a word about coal and the State of Illinois. We are deeply involved in coal development for many reasons, but especially because of the fact that there is more energy in Illinois coal deposits than in the oil reserves of Saudi Arabia and Kuwait combined. From the earliest days of the state, coal has not only fueled the homes of Illinois residents and the state's economy, but it has been woven into its social fabric.

The State of Illinois and the state's coal mining industry have long acknowledged the problems inherent with mining and burning coal. But, more importantly, they are actively and vigorously seeking new technologies to ensure that coal plays an important role in Illinois' future.

Long before clean air and acid rain become important public issues, Illinois was leading the way toward the development of new technologies to burn coal more cleanly, more efficiently and less expensively. Illinois, in fact, is a leader in the development of clean coal technologies.

Coal is mined on an immense scale in our state. Altogether, some 54 million tons a year are recovered from beneath the rock and soil of Illinois. Both surface and underground mining are done on a scale that astonishes those who view it for the first time.

Unlocking the secrets of clean coal technologies is done on the other end of the scale. It begins with the molecular structure of coal. Researchers probe the basic organic nature of this fossil fuel to help other scientists — and later, utility and coal industry engineers — understand how to make coal a cleaner fuel for the 21st century.

The search for answers on how to burn Illinois coal, which is naturally high in sulfur, without releasing unacceptable levels of sulfur dioxide into the air has been going on for decades.

The effort is under way in the laboratories of major Illinois universities, in the demonstration projects managed by the state's utilities and large industries, by researchers working for the state's coal companies and through special programs operated around the state. This massive effort is coordinated by the Illinois Coal Development Board and the Illinois Department of Commerce and Community Affairs, which administers the state's research, development and demonstration programs. In 1984, the Illinois General Assembly established the Coal Technology Development Assistance Fund to speed the transfer of successful laboratory experiments into full-scale demonstration projects. To date, the Board has approved nearly $42 million for laboratory research through the Illinois Clean Coal Institute.

Since 1975, the Illinois General Assembly has authorized $183 million in Coal Development Bond funds for the Illinois Coal Demonstration Program, of which the Board has committed $138 million on 18 clean coal technology projects. The state money has been matched with nearly $662 million in public, private and federal funds for these projects.

Illinois believes that coal is a fuel for the 21st century, both by necessity and by technology. From the standpoint of necessity, coal is our most abundant natural resource, giving America literally hundreds of years of supply.

From the technological perspective, advances in research — fostered by the Illinois Coal Development Board, the Office of Coal Development and Marketing and the Illinois Clean Coal Institute — are proof of the reality that coal's bright past is but a prelude to coal's bright future.

II. CCT AND INDUSTRY RESTRUCTURING

The thrust of my remarks today is this: In order to "complete the clean coal technology mission" it will be necessary to determine CCT's role in the restructured electricity industry and develop a strategy to promote that role. First, we must understand where the industry is headed and how clean coal technology fits into that future. Then, we need to develop a strategy for getting from here to there, from where CCT is today to where it must be in five, ten or twenty years to be a viable option for decision-makers.

Trying to determine the details of where the nation's electricity industry is headed is an especially difficult task at this point in time. In fact, it has developed into a real growth industry if the number of conference and seminar brochures which arrive daily at my office are any indication. But one need look no further than the halls of the state legislatures and the Congress to find guidance. For the first time in nearly a century, the fundamental order of the industry is being changed by those who set it in place originally, our elected representatives. In Illinois, as in California, Rhode Island and any number of Statehouses, the General Assembly is beginning to take up industry restructuring legislation as we speak. The Congress is also poised to take up the subject. The laws which are passed in Washington, Springfield and elsewhere will provide the statutory roadmap which leads eventually to a fully competitive electricity industry where every customer has the power to choose his or her or its electricity supplier. While important, the timing of this move is not nearly as critical as the fact that it absolutely, positively will occur.

One of the most critical parts of my job is to demonstrate to people at my member companies who have been in the industry for many, many years that this change is coming, it is positive and that it will fundamentally alter the way their companies operate. The phrase I often use in a shorthand way to try to describe this sea change is that we will soon become an industry where the bottom line is actually the bottom line. That concept has lots of implications for every stakeholder in the industry but it has particular implications for those of us interested in promoting clean coal technology. When I say that we need to determine how clean coal technology fits into the future of a restructured industry I mean above all how does it fit in terms of "cost." Because that little four-letter word "cost" will soon play the same role in our industry as it does in every other competitive industry, a role which it has really never before played for us. We can talk all day long about the abundance of coal and how using coal to

fuel the next generation of power plants would be in the common good, but believe me all the strong policy arguments won't amount to much if clean coal technology is not cost-competitive with other sources. When we say that CCT will be a superior technology at the time these decisions are made, we must include superiority from a cost-effectiveness standpoint in that definition.

Clearly, clean coal technology does not meet that standard today. How, then do we get from here to there? What is our strategy as promoters of clean coal technology as the power source of choice for the next generation? Who does our strategy target in terms of decision-makers? Perhaps, this final question is the place to begin because the answer on a long-term basis will be quite different than it has ever been for the industry. For the first time in its history, the electricity industry itself will be required to assume the risk and make such decisions. And all without any of the old, reliable safety net found in the regulatory model. In the coming market economy, electricity industry decision-makers will find that the market itself will set the parameters of their decisions and that those parameters, as in all competitive industries, will be largely based on costs. It is nearly impossible to underestimate the change in industry corporate culture needed to digest this shift in priorities.

Thus, the crux of any strategy for promoting clean coal technology as a viable choice for industry decision-makers must lie in making CCT cost-competitive with other potential power sources. Reaching such a goal will not be easy but it is not impossible. It can be accomplished by forging a collaborative effort on the part of the stakeholders who would benefit from use of clean coal technology: electricity consumers, federal and state governments, electricity suppliers of all stripes, CCT developers and vendors, and those directly involved in the production and sale of coal itself. And in this latter group I would certainly include those whose jobs either directly or indirectly depend on coal. One of the increasingly vocal stakeholder groups in the electricity industry restructuring debate is that representing the utility workers. Coal miner representatives must be a vital part of any clean coal technology collaborative effort.

Together, these diverse groups have a great deal of political clout if they will only work in a coordinated fashion to use it for this purpose. Various types of incentives which would help to spur research and development of clean coal technology can be achieved at both federal and state levels if we all work together toward that goal. To be cost-competitive in the long run when decisions will be made regarding new sources of generation, clean coal technology must have already progressed through the testing stage and the application stage of development so that it is approaching maturity status as a market. Only then will it pass the kinds of cost-effectiveness tests which will be used by the market to make final choices. Clean coal technology must be ready when the time is right; it cannot afford to be late, because as my industry is about to learn, in a market economy as in politics, timing is everything.

Policy decisions which benefit the development of clean coal technology will not be made in a vacuum and they will not be made out of altruism. They will be made by down-to-earth policymakers engaged in a political process which is the lifeblood of our society. If we who

favor deployment of clean coal technology sit back and wait for policymakers to discover the wonder of our product by their own devices, it will be a very, very long wait. We must mobilize our considerable resources and actively promote our agenda if we have any hope of success for CCT.

III. CONCLUSION

Coal makes sense for the United States. It makes sense for several important reasons not the least of which is its abundance here — we are the Persian Gulf of coal. It also makes sense in terms of its economic impact on large areas of our nation. And if coal makes sense, especially economically, then clean coal technology makes even more sense because of its potential to capitalize on this abundant resource in an environmentally friendly manner. But I am here to testify that after nearly thirty years of involvement in the political world at all levels from Washington, D.C. to Washington, Indiana, I have learned the hard way that "common sense" does not always, or even often, carry the day in the policymaking process. I believe that the future of clean coal technology hinges on our ability in the next few months and years to mobilize all those who favor that technology to move forward in a cohesive and coordinated effort to affect the policymaking and political process and thereby promote and accelerate CCT development. If we can do so, then we are well on the way to completing the clean coal technology mission and meeting the challenge of change.